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- [1](#)I. LA PAZ 247

Classified By: Acting EcoPol Counselor Brian Quigley for reasons 1.4b,d

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Summary  
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[1](#)1. (C) As the Bolivian state extends its participation in the economy well beyond its capacity, corruption scandals are likely to surface across any number of the poorly managed and highly politicized state enterprises. The state hydrocarbon company (YPFB) is far and away the largest of these companies and the recently uncovered corruption involving its former president Santos Ramirez spotlights corruption at the top, but the rot runs much deeper. The scandal triggered the now standard spin of blaming the U.S. Embassy and opposition leaders, but on March 11 Ramirez was thrown out of the MAS by the party's ethics committee. The treatment of Ramirez by Morales hints that he is walking a fine line between showing himself tough on corruption and making sure his own party doesn't turn on him. The inner workings of the Morales Cabinet are still largely a matter of guesswork, but the continual reshuffling of the same names through cabinet posts indicates a lack of depth in trusted MAS leadership, a dearth of experienced managers, and the desire by senior leadership to continue to centralize power around themselves. The administration claims that individuals are responsible for corruption, but the opposition is pointing (correctly) to a MAS economic model where corruption seems sure to thrive.  
End Summary.

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Santos Ramirez: A Necessary Sacrifice  
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12. (C) The scandal at the state hydrocarbon company (YPFB) involving the murder of a Bolivian businessman and alleged payoffs to then YPFB President Ramirez has led directly to the expulsion of Embassy Second Secretary Francisco Martinez, as the Morales administration tries to deflect blame for the corruption away from itself and prominent MAS leaders (Ref. B-G). MAS leadership has identified corruption as a potential Achilles heel and is concocting conspiracy theories (many at our expense) to salvage their credibility on the issue. Foreign Minister David Choquehuanca allegedly briefed the incoming OAS Ambassador that, because of his senior position in Washington, he would be charged with vigorously refuting any negative stories about Bolivian stewardship of the economy, or commitment to fighting narcotics trafficking or corruption. Choquehuanca identified these three issues as vulnerabilities that "could derail" Evo Morales' "change agenda."

13. (C) On March 11, Ramirez was kicked out of the MAS by their ethics committee and may face jail time over the scandal. It is inaccurate however, to conclude that Morales did everything he could to destroy a political rival. We believe that Morales made a calculated decision that he couldn't stand publicly behind Ramirez and needed the cover of a public investigation (which buys him time to figure out a way to make sure it leads to the opposition (Septel), us, or elsewhere). Additionally, Ramirez's party expulsion by the rank and file members of the MAS creates the impression that his expulsion was beyond the control of Morales. The president initially deflected calls for Ramirez to be kicked

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out of the MAS, but in the end Ramirez had to be sacrificed in the fight against corruption; it is a sacrifice that fits the administration's rhetoric that eliminating corruption is simply a matter of weeding out corrupt individuals wherever they may be.

14. (C) Ruling MAS party congresswoman Ana Lucia Reis (strictly protect) told us during a February 4 meeting of MAS congressmen that Vice President Alvaro Garcia Linera told congressmen that the administration was genuinely concerned about combating corruption and that "the hand of the United States is surely behind this." After initially supporting Ramirez in the face of the corruption charges, Reis said Morales "cut off" his longtime friend and political ally after reading a police report in late January detailing Ramirez's role in the latest scandal and "several others, most of which are not public; they found skeletons everywhere." Lower House President Edmundo Novillo and other MAS leaders allegedly told Reis that Morales was "furious" when he learned the full scope of Ramirez's dirty dealing and immediately decided he wasn't worth the political capital of defending.

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Cabinet Infighting, Rumors Abound  
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15. (C) Dissident MAS member and Senate Vice President Luis Gerald Ortiz (strictly protect) told PolOff the fallout from the Ramirez case is dividing the party in congress. Many MAS congressmen owe their political careers to Ramirez and have abiding friendships with him. He is more popular among MAS congressmen than Vice President Garcia Linera, much to Garcia's irritation, and was the shoe-in favorite to take Garcia's place on the ticket, leading to conspiracy theories about MAS opponents setting him up.

16. (C) Ramirez was also a direct rival for influence with Minister of the Presidency Juan Ramon Quintana. In that sense, abandoning Ramirez to "justice" was also a victory for Quintana. While Quintana remains unpopular among the indigenous and social group portion of the MAS base (ostensibly pro-Ramirez before the scandal), he remains an effective operator for Morales. Indeed, Morales is reported

to have recently told a MAS caucus that, "Quintana got me Fernandez (former governor of Pando, now in jail), what have you given me?". Rumor mills contend that Quintana "has something" on Morales, but a more straightforward interpretation of his staying power is his effectiveness as a MAS hatchet man.

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Incestual Reshuffling of "The Family"  
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¶7. (C) Beyond the big three of Quintana (Presidency), Rada (Government), and Lineira (Vice-President), the Morales Cabinet has been a constantly shifting mixture of generally the same people. This may simply reflect a lack of qualified MAS members, but it also has the effect of keeping any corruption within "the family." The newest member of the cabinet, Patricia Ballivian, left her post as Minister of the Bolivian Highway Administration (ABC), to head the Ministry of Development. Corruption charges dogged her at ABC and the former minister, Jose Maria Bakovic, postulated in an interview that she was named development minister simply to protect her and the government from facing additional corruption charges and her shady dealings with Ramirez and the Brazilian construction firm OAS.

¶8. (C) The same reshuffling is happening at YPFB, where ex-Minister of Hydrocarbons, Carlos Villegas has been appointed as the new head of YPFB (Note: Such direct appointments are technically illegal, as the Senate should be asked to approve all new heads of state enterprises. End

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note.) Moreover, the "watchdogs" (superintendents) across industrial sectors have been politicized. For example, within hydrocarbons the ex-president of YPFB, Guillermo Aruquipa is now the superintendent of hydrocarbons, charged with monitoring the company he once headed.

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"Teflon Evo" Avoids Investigation and Contract Reaffirmed  
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¶9. (SBU) On March 4, the senate commission set up to investigate the YPFB corruption case agreed not to investigate President Morales for decreeing YPFB's authority to use trust funds to enter into no bid contracts. In a compromise with the commission's president Walter Gutieras, from the opposition party Podemos, MAS members of the commission were able to exempt Morales from investigation. In exchange, four current and former members of the Morales administration will be investigated: Carlos Villegas (ex-minister of hydrocarbons and the new president of YPFB), Saul Avalos (ex-minister of hydrocarbons), Luis Arce (minister of treasury), and Guillermo Aruquipa (superintendent of hydrocarbons). Two days later, the MAS senators publicly retracted their signatures and Morales claimed they had been "misled" by the opposition members of the commission. In the end however, the signatures were left in. Additionally, in spite of the scandal, Villegas reaffirmed the contract with Catler-Uniservice to construct the controversial gas separation facility.

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Corruption, Corruption: Who or What's to Blame  
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¶10. (C) For the MAS, at least publicly, corruption is simply the result of corrupt individuals; purge the dirty people and corruption will disappear. For the opposition, the system being put in place by the MAS facilitates corruption. Senate President Oscar Ortiz recently published a document that outlines how presidential decrees which create "strategic enterprises" and fund them with special trust funds (fidecomisos) are leading to a system rife with corruption. To date, nine such public strategic enterprises

have been created and funded by decree without Senate approval: The Food Production Support Company (EMAPA), Milk of Bolivia (LACTEOSBOL), Paper of Bolivia (PAPEBOL), Cardboard of Bolivia (CARTONBOL), Business of Marketing (EDCO), Cement of Bolivia (ECEBOL), Bolivian Customs Deposits (DAB), Sugar of Bolivia (AZUCARBOL), Aviation of Bolivia (BoA). Moreover, six previously existing enterprises (some taken over by the state during the Morales tenure) have received access to trust funds by decree for particular expansion projects: Minera Huanuni, Mutun Steel (ESM), The Mining Corporation of Bolivia (COMIBOL), Vinto Metals, Entel (the nationalized telephone company), and YPFB. In all, there are now 15 national strategic companies and every one of them creates a unique opportunity for corruption and political manipulation. According to Ortiz, close to US\$2 billion has been placed in trust funds for these strategic companies.

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YPFB -- The Largest Example  
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¶11. (C) Beyond the well-documented case of Santos Ramirez at the top, corruption can be found throughout YPFB and the hydrocarbon sector. Before listing four areas where corruption likely thrives, it should be noted that it has been over a year since YPFB published its previously extensive quarterly reports. Since that time, no one can say how much money has flowed into or out of the company or, concretely, what activities the company has undertaken. Four areas of corruption revolve around: contraband, illicit sales, relations with the Venezuelan state company PdVSA, and

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equipment purchases.

¶12. (C) First, hydrocarbons in Bolivia are highly subsidized and a brisk contraband business exists with the country's neighbors. According to a major daily, at least 60 percent of employees at the National Migration Service have been dismissed for acts of corruption over the last year and a half. Gas canisters and diesel are two of the most lucrative smuggled items. YPFB, either at its refineries or at its service stations is reportedly tightly entangled in smuggling networks. (Note: Hydrocarbons are not the only contraband products. Still under senate investigation, the highly publicized case linking Minister Quintana to 33 trucks in Pando State also involves the illegal movement of merchandise across borders. End note.) Second, because of diesel shortages, quantitative limits on sales have been imposed. For a price however, these limits can be overlooked at the YPFB refineries, where middle men do a brisk business supplying necessary diesel to Santa Cruz farmers. Third, YPFB's relations with PdVSA are opaque. A former Treasury Vice Minister told us that in part financial problems at YPFB were exacerbated because it could not produce purchase receipts from PdVSA for diesel imports, and thus could not be reimbursed for those purchases by the Treasury. Additionally, and not surprisingly, an untested partnership between the newly created YPFB exploration company SIPSA and PdVSA won the first drilling contract from the now wholly nationalized Andina (formerly majority owned by Repsol). It promptly spent \$6 million to charter a ship solely for the purpose of bringing a drilling rig directly from Venezuela (Ref. G). Finally, equipment purchases with these unsupervised trust funds (especially used equipment) are being criticized across the state enterprises. For YPFB, the latest accusations revolve around faulty home gas connection monitors being installed in the poor, suburban areas of La Paz. (Note: The newly appointed interim Prefect in Pando Rafael Bandeira is being accused of purchasing used replacement parts for the state governments vehicle fleet worth more than the vehicles themselves. End note.)

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A Quick and Dirty Laundry List

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¶13. (C) Accusations of corruption are consistent and growing across the public sector enterprises. The companies are operated by inexperienced political operatives under a cloak of secrecy. For example, when PAPEBOL (paper) was formed, private sector industry contacts said that they were never consulted and state factory plans emerged out of secret government meetings (Ref. H). Moreover, the used machinery PAPEBOL planned to purchase was obsolete and inappropriate for the recycled paper to be manufactured. The milk company was launched without consideration of where the raw supply would come from, leading private executives to fear disloyal competition (and pressure on producers to sell to the state companies). There have also been corruption allegations made about kickbacks by a water company (EPSAS) to government officials (Ref. I), plane leases for the new national airline BOA, the sale of visas, and bribes to police for political cooperation (Ref. C). Finally, one may reasonably ask why Entel, the nationalized telephone company, recently donated 23 computer systems to the Bolivian Workers Union (COB). While not explicit corruption, the Bolivian state is in a position to arbitrarily reward and punish through a growing network of public companies.

¶14. (C) Additionally, the government lauds the threat of punitive action or expropriation over much of the private sector. For example, an electric company executive told us that he was pressured to allow COMIBOL (the State Mining Corporation) to have a ten percent stake in a hydroelectric expansion. When asked what service they provided to the company, the executive just laughed. In agriculture, following the export ban on cooking oil in the spring of

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2008, companies must now have all exports "approved" by the Ministry of Agriculture. While our contacts say they have had no serious problems to date, it is a clear political lever held over the lowland agricultural producers. Additionally, potential disloyal competition for the purchase of agricultural production looms in the form of EMAPA, the Food Production Support Company.

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Comment  
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¶15. (C) The Bolivian state now controls close to a quarter of the economy and a broad swath of economic actors have been created whose actions do not necessarily correspond to profit motives. With lax oversight, political goals, and inexperienced managers, identifying and stopping corruption at all levels of state enterprises will be a difficult task indeed. It should be noted that corruption in prior governments was also rampant. But beyond creating a state oriented system where corruption will thrive, a difference between the Morales administration and prior governments is that in the past little public emphasis was given to the issue and few measurable promises were made to combat it. Morales, by contrast, has made the wholesale "elimination" of corruption a cornerstone of his political discourse. Our contacts (even some MAS contacts) confirm that corruption is at least as bad in this administration as in prior governments and that the MAS has set themselves up for a fall by claiming to be anti-corrupt saints. Unfortunately however, even MAS stalwarts like Ramirez appear more interested in lining their pockets than living up to the promise to break with Bolivia's long tradition of corruption.

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